

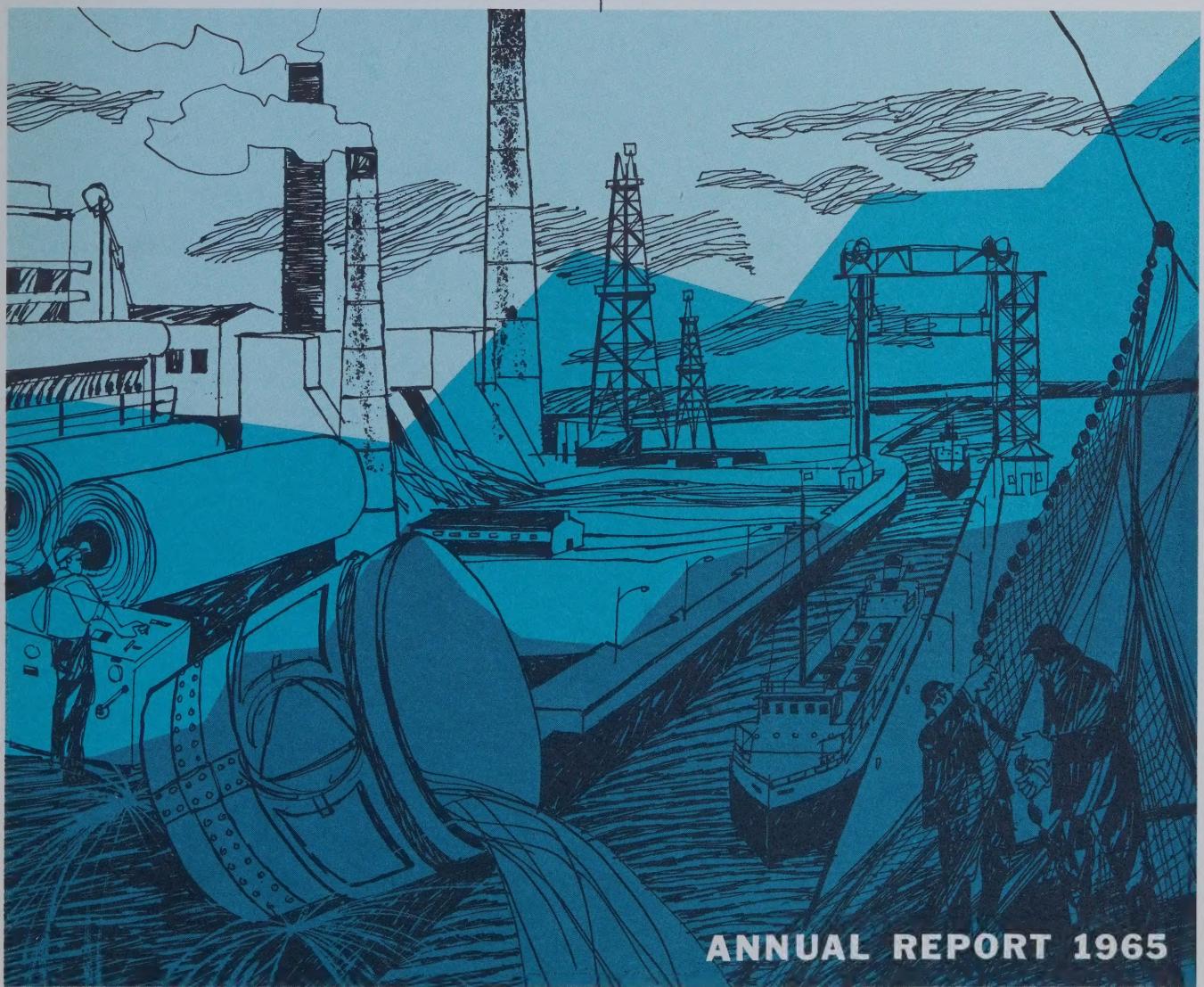
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CANADA GROWTH FUND



CANADA SECURITY FUND



ANNUAL REPORT 1965

INVESTMENT POLICY

CANADA GROWTH FUND

The primary objective of the Fund is to seek long-term growth of capital by investing in companies, in industries and in geographical areas, where management considers the best opportunity for growth exists.

At the same time, in its pursuit of growth, management gives due regard to the exercise of prudence to the end that shareholders' capital may be protected through adequate diversification and constant supervision.

Investments will be, for the most part, in Canadian companies and companies doing business in Canada. They will, however, include varying proportions of securities of selected United States companies and possibly, from time to time, desirable companies situated in other parts of the world.

Selection and holding of portfolio securities will be based on investment value considerations rather than speculative appeal. The Fund is believed, therefore, to represent an effective medium for that portion of an investor's capital which he may wish to have invested primarily in common stocks of investment calibre for long-term growth.

CANADA SECURITY FUND

The primary objective of the Fund is to conserve shareholders' capital and to produce reasonable income. The secondary objective is to secure growth of capital and income through a dynamic investment policy and constant intensive supervision.

It is the present policy of the Fund to pursue its primary objective by investing mainly in the bonds and debentures of governments and well established companies having good prospects for future growth. From time to time it may be the policy of the Fund to invest in convertible debentures or equity type securities whenever it considers it is in the interest of the Fund to do so.

While safety of principal and reasonable income remain primary objectives, the Fund seeks added performance by managing the portfolio actively. To this end bonds purchased for the Fund are not held indefinitely without regard to market conditions. This policy is designed to result in a Fund which represents an effective medium for that portion of an investor's capital which he may wish to have invested primarily in defensive form with the prospect of gradual growth of both capital and income.



CANADA GROWTH FUND



CANADA SECURITY FUND

Members, The Canadian Mutual Funds Association

ANNUAL REPORT

For the year ended December 31, 1965

MANAGER

PLANNED INVESTMENT MANAGEMENT LTD.
Montreal, Canada

DIRECTORS

KENNETH J. DOIG, F.C.I.S.
R. FRASER ELLIOTT, Q.C.
JOSEPH S. LAND
JOHN B. PENNEFATHER
JOHN B. SPARLING
R. DUDLEY STEWART, C.A.
ROBERT R. TILDEN

INVESTMENT ADVISER

CANADA GROWTH FUND
VANCE SANDERS & COMPANY OF CANADA LIMITED
Montreal, Canada

INVESTMENT ADVISER

CANADA SECURITY FUND
FULLERTON, MACKENZIE & ASSOCIATES LTD.
Montreal, Canada

SPONSOR AND GENERAL DISTRIBUTOR

PLANNED INVESTMENTS CORPORATION
Head Office: 2055 Peel Street
Montreal 2, Canada

TRUSTEE

CROWN TRUST COMPANY
Montreal, Canada

AUDITORS

McDONALD CURRIE & Co.
Montreal, Canada

LEGAL COUNSEL

STIKEMAN, ELLIOTT, TAMAKI, MERCIER
Montreal, Canada



CANADA GROWTH FUND



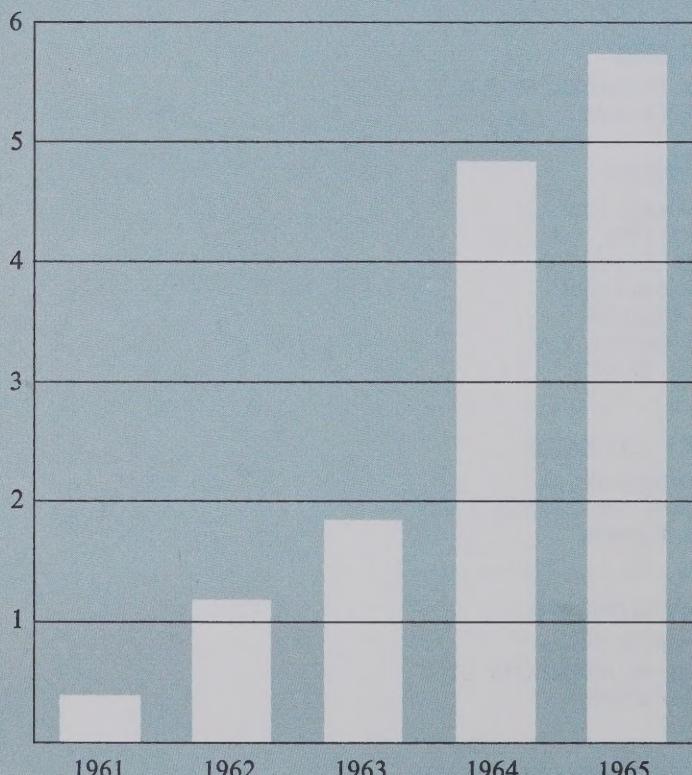
CANADA SECURITY FUND

RECORD OF GROWTH

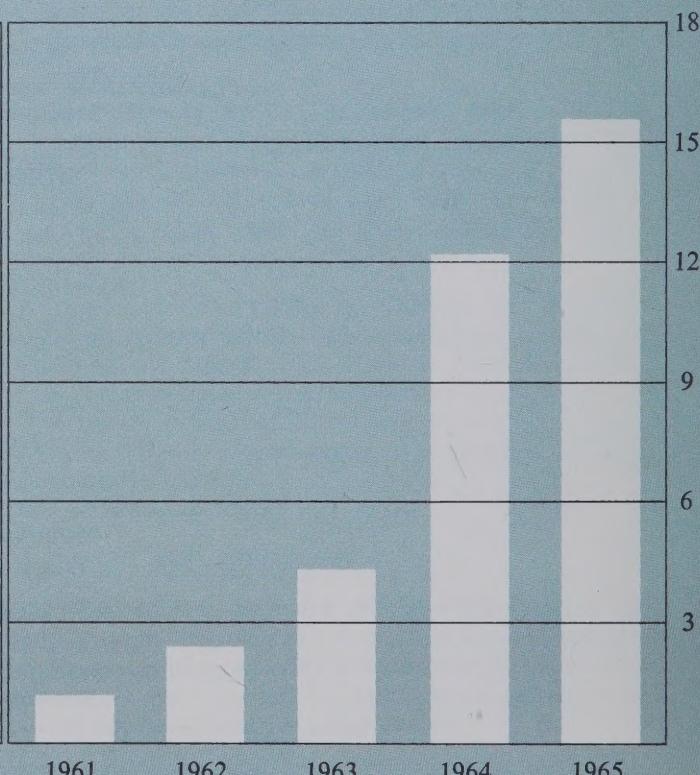
CANADA GROWTH FUND and CANADA SECURITY FUND

Growth of shareholders and total net assets since inception 1961

SHAREHOLDERS
in thousands



TOTAL NET ASSETS
in \$ millions



YEAR ENDING
December 31

SHAREHOLDERS

TOTAL NET ASSETS

1961	410	\$ 1,214,299
1962	1,194	2,470,648
1963	1,852	4,251,658
1964	4,854	12,328,535
1965	5,737	15,542,375

REPORT OF THE PRESIDENT

Planned Investment Management Ltd.

On this occasion, for the first time, we have pleasure in submitting a combined report on the affairs of two Funds: Canada Growth Fund and its companion Fund, Canada Security Fund. The latter was established on December 31, 1964 as a fully-managed bond fund. Its shares are freely inter-convertible with those of Canada Growth Fund. No sales charge is payable on the exchange of shares of either Fund for those of the other.

This relationship of a stock fund and a bond fund, with the exchange privilege, can represent an important advantage of share ownership in either Fund. It thus becomes possible for a shareholder to conveniently adjust the nature of his holding in keeping with changes in his own investment objectives. Further comment on the practical value of this appears later in the report.

CANADA GROWTH FUND

Canada Growth Fund ended the year 1965 with total net assets of \$14,542,581 an increase of twenty per cent over the total one year earlier. Shareholders at year-end numbered 5701 as compared with 4851. Shares outstanding increased from 2,049,314 to 2,361,695.

The customary year-end income distribution by Canada Growth Fund was declared payable January 31, 1966 to shareholders of record December 31, 1965 in the amount of 11 cents per share, a new high. The distribution is automatically reinvested for you in additional shares at net asset value unless you have requested receipt in cash. The "ex-distribution" net asset value per share at year-end was \$6.16, up from \$5.90 12 months previously, an increase of 4.4 per cent. This compares with an increase in the Toronto Stock Exchange Composite Index in the same period of 2.16 per cent. Total investment gain per share after adding the income distribution was 6.27 per cent.

While your Fund thus performed somewhat better than the Canadian market as a whole, your management is far from satisfied with the year's results. During the past year the Canadian equities market has lagged far behind American markets. In the latter, the highest quality issues, even in the growth stock category, performed poorly in general as compared with certain U.S. stocks of the cyclical and "glamour" variety. In other words, holdings of many fundamentally sound and very promising stocks turned in relatively poor short term performance. The Investment Adviser is now recommending a number of portfolio changes designed to take advantage of the shifting influences

on short-term market performance, while, at the same time, seeking to avoid incurring undue risk or any compromise with quality.

Shareholders will recall that Canada Growth Fund has had a wholly-owned subsidiary, Free World Growth Fund Ltd. This subsidiary has had the function of holding all of the foreign securities of the Fund. This has effectively altered foreign income to Canadian income as it has been passed through to Canada Growth Fund shareholders. The main purpose of this has been to keep the Fund qualified for investment by registered Canadian corporate pension funds. Counsel now advises this is no longer necessary and that such qualification can continue without the subsidiary company. Free World Growth Fund Ltd. has therefore been wound up and Canada Growth Fund will henceforth own all of its portfolio securities directly, both Canadian and foreign.

CANADA SECURITY FUND

Canada Security Fund, which was established December 31, 1964, completed its first year with total net assets of \$999,794. Initial net asset value per share was \$5.00. During the year it paid quarterly income distributions in cents per share of 4.53, 4.77, 4.95 and 5.42, for a total of 19.67. The year-end distribution of 5.42 cents per share was declared payable January 24, 1966 to shareholders of record December 31, 1965. The ex-distribution net asset value per share at close of business December 31 was \$4.94.

Bond prices in Canada as a whole fell almost five points in 1965. Had the performance of Canada Security Fund paralleled the market, the current net asset value would be about \$4.75. In fact, relative to the bond market generally, the total performance of the Fund was 7.58 per cent. It is only in the context of the bond market as a whole that the management results can be properly assessed. The Investment Adviser has made many moves within the portfolio during the year to protect the assets of the shareholders from the effects of a most unfavourable bond market. Less actively managed bond portfolios have, of course, depreciated severely in the same period.

THE BOND MARKET

The overriding factor in this situation has been the steady decline in U.S. bond prices, primarily due to American concern over their balance of payments problem, and due to the escalation of the war in

South Viet Nam. Federal Reserve Board fears of heightening inflation moved them to increase the rediscount rate by $\frac{1}{2}$ per cent to $4\frac{1}{2}$ per cent in December. Confidence in sterling has ebbed and flowed and the crisis in early summer was instrumental in starting a serious decline in Canadian bond prices. The Atlantic Acceptance collapse in June rocked the financial community, and the whole basis of corporate credit in this country has been sorely tested. Finance company rates, both long and short term, rose very sharply as institutional investors withdrew their normal support. Bank loans to finance companies have risen by \$242 million since June 14, and it is clear that considerable funding must yet be undertaken. This has put pressure on rates for all corporate borrowers.

The uncertainties and pressures which occurred in 1965 have established yield levels in Canada which are almost as high as the post-war peak of 1960 and about the same as the crisis of 1962. No one knows what troubles will develop in 1966 or what will be their impact on bond prices. The Investment Adviser feels, however, that the present level of interest rates encourages the current holding of long term high grade bonds. Indications suggest that the absolute performance of Canada Security Fund in 1966 will show a significant improvement over 1965. Certainly its performance relative to the bond market as a whole should continue to be favourable.

THE CURRENT INVESTMENT CLIMATE

The Canadian economy continues its boom with over seven million people working at the current level of "full employment." Gross National Product for 1965 is expected to have increased by over 6 per cent after adjustment for price inflation. This is above the $5\frac{1}{2}$ per cent annual growth goal set by the Economic Council of Canada — the second year it has been exceeded. Capital expenditures continue to spur the economy, but will be lower than mid year official forecasts because of delays due to strikes, shortages and postponements of projects to reduce inflationary pressures. Nevertheless, total capital spending for 1965 will have increased by close to 15 per cent. The inflationary pressures associated with the boom appear to be intensifying in spite of the deferment of some projects.

Corporate profits and dividend payments in Canada reached new highs in 1965, but Canadian industrial

stock price averages had not surpassed their high of mid May by year end. On the other hand, U.S. market averages continued to rise in the latter half of the year. A renewal of wide-spread speculative enthusiasm has been developing south of the border — an aspect of the investment climate there that has been quiescent since 1962.

THE PERIOD AHEAD

The outlook for 1966 is for continued high levels of business in Canada — although it appears that increases in our economy will not be as rapid as in 1965. Capital expenditures are expected to grow at a lower rate — but still at a significant percentage. Gross national product may increase at a rate somewhat lower than in 1965 — perhaps nearer 4 per cent after adjusting for price changes. The high level of business in the United States will undoubtedly influence our economy — and possibly add to the inflationary pressures, which continue to increase.

As we move into 1966, some of the more important uncertainties which challenge the Investment Advisers include threats of increased armed conflict, inflationary pressures in North America, continuing shortages of manpower and materials, and the credit structure upon which our prosperity depends. Government and business alike seem to be improving their flexibility to cope with major economic changes and uncertainties in more rational and effective ways. The continuing prosperity of both Canada and the United States provides the opportunities for governments to adjust to strains and imbalances. The current high level of corporate and personal incomes will enable many well-managed companies to continue their growth by providing the goods and services to satisfy the needs and wants of the growing population of North America.

Your management will continue to pursue the stated objectives of both Canada Growth Fund and Canada Security Fund with the utmost zeal. It is results that count, and we are confident that in these terms you will be increasingly satisfied with your investment.

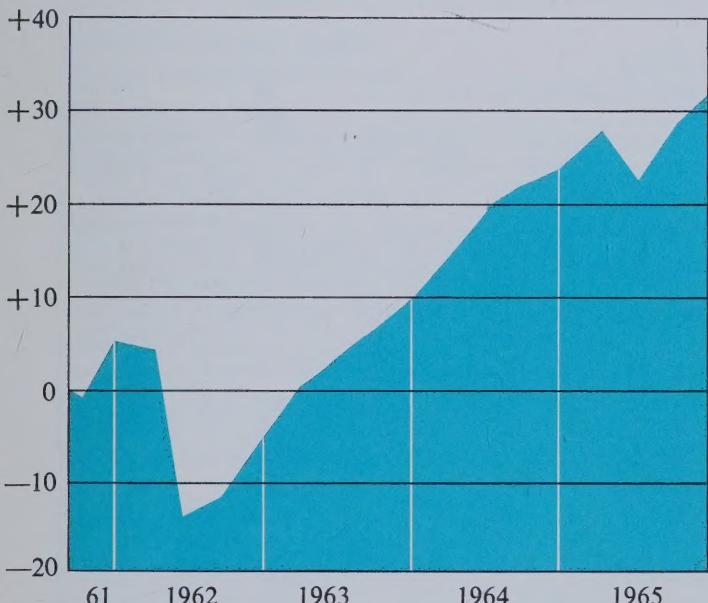
John Sparling

J. B. SPARLING, President

**INVESTMENT PERFORMANCE**

Percentage change in net asset value per share of Canada Growth Fund from its inception at Aug. 15, 1961 to Dec. 31, 1965 based on quarter-end figures with all income distributions reinvested.

% change.

**YEAR END NET ASSET VALUES PER SHARE AND YEARLY INCOME DISTRIBUTIONS**

Year Ending December 31	Year's Income Distributions	Cumulative Income Distributions	Year-end Share Value
1961	3.14¢	3.14¢	5.23
1962	7.44¢	10.58¢	4.63
1963	7.46¢	18.04¢	5.28
1964	10.23¢	28.27¢	5.90
1965	11.00¢	39.27¢	6.16

INVESTING FOR GROWTH

It is appropriate to review what kind of investment you own, how it is managed in your interests, and the investment results achieved. As at December 31 your investment consisted of 80 common stocks and 2 preferred stocks. Some of the companies listed on pages 6 and 7 are doubtless more familiar to you than others. All, however, have common characteristics which meet your Fund's criteria for growth selection:

- consumer demand for their product or service is strong and should accelerate;
- future earnings should increase at a faster-than-average rate;
- able, aggressive management appears assured in the years ahead;
- research and innovation is prominent throughout their operations — for new products, improved marketing, more efficient production;
- financially they are strong and sound — ready for expansion, but prepared for periods of business slowdown

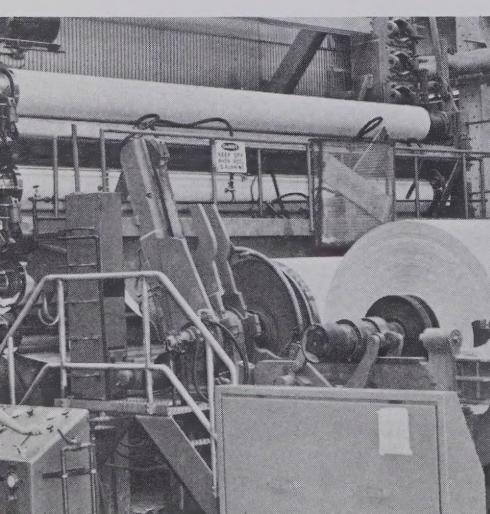
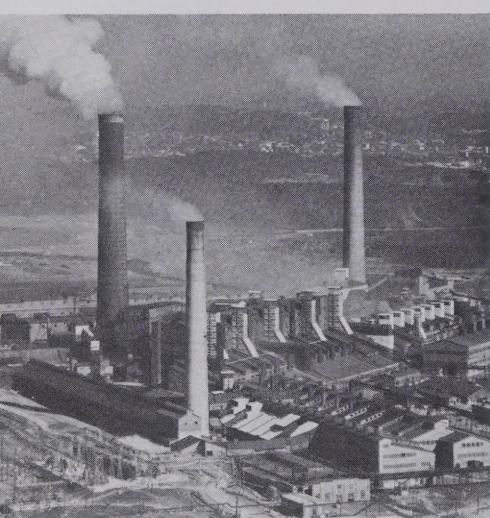
Of course, some of these characteristics might apply to small, young companies; thus there is a further standard by which investments for the Fund are gauged: demonstrated growth under a variety of *past* conditions. This is a measure of quality. Your Fund seeks to avoid speculative securities, and to provide the "quality growth stock portion" of your investment account, by concentrating on companies with clearly defined potential; avoiding those with temporary speculative appeal.

THE INVESTMENT ADVISER

Vance, Sanders & Company of Canada Limited is under contract as Investment Adviser to Canada Growth Fund. The Investment Adviser represents one of the oldest and most experienced mutual fund management organizations on the North American continent. Vance, Sanders & Company of Canada Limited is associated with Vance, Sanders & Company, Inc., which is the Investment Adviser to 4 funds with assets aggregating \$270,000,000, and is exclusive distributor of the shares of Massachusetts Investors Trust, the oldest and largest common stock investment company in North America, having assets of approximately \$2,252,000,000. In addition, The Investment Adviser has an investment research and analysis contract with Boston Management & Research Company, Inc. which provides investment advice to two additional United States investment companies which have extensive holdings in Canada, and whose combined assets total some \$440,000,000.



CANADA GROWTH FUND



SECURITY

BANKING AND FINANCE (7.17%)

	Number of shares held	Market value (Note 6)
Bank of Montreal.....	1,075	\$ 69,875
The Bank of Nova Scotia.....	2,003	151,226
Banque Canadienne Nationale.....	2,540	177,482
Beneficial Corporation (U. S.).....	4,610	168,496
Canadian Imperial Bank of Commerce.....	1,780	118,815
The Royal Bank of Canada.....	1,300	97,500
The Toronto-Dominion Bank.....	1,750	115,500
Transamerica Corporation (U. S.).....	1,020	47,286
Western Bancorporation (U. S.).....	2,500	97,085
		<u>1,043,265</u>

BUSINESS EQUIPMENT (4.64%)

International Business Machines Corporation (U. S.).....	350	187,749
Moore Corporation, Limited.....	4,100	333,637
R. L. Crain Limited.....	5,500	<u>153,312</u>

674,698

FOREST PRODUCTS (6.06%)

Consolidated Paper Corporation Limited.....	2,000	80,000
Domtar Limited.....	9,000	171,000
MacMillan, Bloedel and Powell River Limited.....	11,400	296,400
Scott Paper Limited.....	4,700	92,825
Weldwood of Canada Limited.....	22,800	240,825
		<u>881,050</u>

HEAVY INDUSTRY (6.86%)

The Algoma Steel Corporation Limited.....	2,400	151,500
Canada Iron Foundries Limited.....	3,000	193,500
Dominion Foundries and Steel, Limited.....	6,000	163,500
Massey-Ferguson Limited.....	9,350	316,731
The Steel Company of Canada Limited.....	6,500	172,250
		<u>997,481</u>

INSURANCE (5.66%)

Aetna Life Insurance Company (U. S.).....	1,333	98,516
Connecticut General Life Insurance Co. (U. S.).....	600	91,913
The Great-West Life Assurance Company.....	2,200	184,937
Industrial Life Insurance Company.....	1,125	222,187
La Prévoyance Compagnie d'Assurances.....	2,000	27,500
The Lincoln National Life Insurance Co. (U. S.).....	1,200	113,842
The Travelers Corporation (U. S.).....	1,800	83,809
		<u>822,704</u>

METALS AND MINING (6.04%)

Aluminium Limited.....	10,975	364,918
The International Nickel Company of Canada, Limited.....	3,000	291,000
Noranda Mines Limited.....	4,200	222,600

878,518

OILS AND NATURAL GAS (9.78%)

Central-Del Rio Oils Limited.....	6,000	67,500
Dome Petroleum Limited.....	13,500	207,562
Home Oil Company Limited "B".....	5,300	99,375
Imperial Oil Limited.....	5,700	299,250
Standard Oil Company (New Jersey) (U. S.).....	900	77,762
Supertest Petroleum Corporation Limited.....	7,875	183,093
Texaco Canada Limited.....	2,800	152,250
Texaco Inc. (U. S.).....	3,885	335,675

1,422,467

PIPE LINES (5.51%)

The Alberta Gas Trunk Line Company Limited — wts.....	17,300	203,275
Interprovincial Pipe Line Company.....	1,400	121,100
Trans-Canada Pipe Lines Limited.....	5,000	191,875
Western Pacific Products & Crude Oil Pipelines Ltd.....	3,000	52,500
Westcoast Transmission Company Limited.....	10,500	232,312

801,062

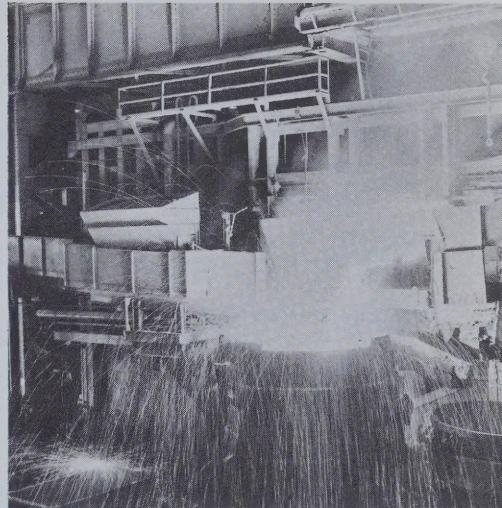
PORTFOLIO OF INVESTMENTS

As at December 31, 1965

SECURITY

RETAIL MERCHANTISING (12.32%)

	Number of shares held	Market value (Note 6)
Dominion Stores Limited	15,000	\$ 358,125
Federated Department Stores, Inc. (U. S.)	700	50,699
Oshawa Wholesale Limited "A"	12,200	338,550
Safeway Stores Inc. (U. S.)	3,400	114,219
Sears, Roebuck and Co. (U. S.)	800	56,760
Shop & Save (1957) Ltd.	16,008	218,109
Simpsons, Limited	13,500	384,750
Steinberg's Limited "A"	3,125	162,500
Woodward Stores Limited "A"	4,100	108,137
		<u>1,791,849</u>



TRANSPORTATION (4.55%)

Canadian Pacific Railway Company	9,900	662,062
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UTILITIES (13.70%)

Arizona Public Service Company (U. S.)	2,300	84,992
The Bell Telephone Company of Canada	6,300	365,400
Calgary Power Ltd.	2,400	66,000
Community Public Service Co. (U. S.)	1,500	67,725
Florida Power & Light Co. (U. S.)	1,300	110,577
General Telephone & Electronics Corp. (U. S.)	2,600	128,570
Great Lakes Power Corporation Limited	4,912	155,342
Houston Lighting and Power Co. (U. S.)	1,400	80,894
International Telephone and Telegraph Corporation (U. S.)	1,600	120,400
International Utilities Corporation	11,000	324,500
Nova Scotia Light and Power Company Limited	3,600	125,100
Quebec — Telephone	7,400	188,700
Southern California Edison Company (U. S.)	1,100	46,560
Texas Utilities Company (U. S.)	1,100	72,871
Tucson Gas and Electric Company (U.S.)	2,900	55,336
		<u>1,992,967</u>



MISCELLANEOUS (14.27%)

Baxter Laboratories Inc. (U. S.)	4,100	212,110
Distillers Corporation — Seagrams Limited	6,200	237,925
Du Pont of Canada Limited	3,400	145,350
Eastman Kodak (U. S.)	2,680	338,157
General Motors Corp. (U. S.)	2,995	333,231
Honeywell, Inc. (U. S.)	1,900	152,166
International Flavors & Fragrances, Inc. (U. S.)	2,080	107,328
Johnson & Johnson (U. S.)	1,500	277,753
The Trane Co. (U. S.)	2,800	162,540
Union Carbide Canada Limited	3,850	108,762
		<u>2,075,322</u>

TOTAL COMMON SHARES (96.56%)

PREFERRED SHARES (1.60%)

Transamerica Corporation 4 1/2% Pfd. (U. S.)	700	119,648
Trust Général du Canada 6% Pfd.	3,762	112,860

232,508

14,275,953

266,628

\$14,542,581

NET CASH and RECEIVABLES (1.84%)

TOTAL NET ASSETS



PORTFOLIO CHANGES — October 1 — December 31, 1965

HOLDINGS INCREASED

Du Pont of Canada Limited	+	3,400**
International Flavour & Fragrances, Inc. (U.S.)	+	40**
Oshawa Wholesale Limited "A"	+	6,100*
Weldwood of Canada Limited	+	10,000

HOLDINGS DELETED

MacMillan, Bloedel and Powell River Limited, 3% Pfd.	—	1,000
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*Stock Split

**Stock Dividend



CANADA GROWTH FUND

ASSETS

	1965	1964
Investments in securities - at quoted market value (average cost December 31, 1965 - \$13,186,735, December 31, 1964 - \$10,884,276).....	\$14,275,953	\$11,435,375
Cash.....	473,889	708,968
Subscriptions receivable for shares of the Fund sold.....	79,261	63,546
Dividends receivable.....	50,660	10,200

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the following financial statements of Canada Growth Fund —

Balance sheet and portfolio of investments as at December 31, 1965
Statements of income and realized and unrealized net gains on investments for the period from the commencement of business of the Fund on August 15, 1961 to December 31, 1965.

Statement of distribution account for the year ended December 31, 1965.

Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements, when read in conjunction with the notes thereto, present fairly the financial position of the Fund as at December 31, 1965 and the results of its operations for the periods indicated and the portfolio of investments presents fairly the information it purports to present, the whole in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods, except for the change referred to in note (4), with which we concur.

McDONALD, CURRIE & CO.
Chartered Accountants

Montreal 2, Canada
January 14, 1966

\$14,879,763

\$12,218,089

APPROVED ON BEHALF OF THE MANAGER

J. B. SPARLING, Director

R. R. TILDEN, Director

BALANCE SHEET AS AT DECEMBER 31, 1965

LIABILITIES

	1965	1964
Accrued expenses	\$ 31,154	\$ 11,030
Accounts payable for shares of the Fund redeemed	45,611	6,808
Income distribution payable January 31, 1966 (Note 2)	<u>260,417</u>	<u>96,816</u>
	<u>337,182</u>	<u>114,654</u>

SHAREHOLDERS' INTEREST

Shares of no par value issued and outstanding (Notes 3 and 4)			
Issued since inception	2,810,205.117 shares	15,860,486	11,990,216
Redeemed	<u>448,509.976 shares</u>	<u>2,655,278</u>	<u>689,036</u>
Balance outstanding	<u>2,361,695.141 shares</u>	<u>13,205,208</u>	<u>11,301,180</u>
Realized and unrealized net gains on investments		1,337,373	802,255
		<u>14,542,581</u>	<u>12,103,435</u>
		<u><u>\$14,879,763</u></u>	<u><u>\$12,218,089</u></u>
Net asset value per share		<u><u>\$ 6.16</u></u>	<u><u>\$ 5.90</u></u>

NOTES TO FINANCIAL STATEMENTS for the Year ended December 31, 1965

1. As at the close of business on December 29, 1965, the wholly-owned subsidiary company, Free World Growth Fund Limited, ceased to operate and distributed its assets to its parent company. The subsidiary company intends to make application to surrender its charter.

The investments formerly held by the subsidiary company have been recorded in the accounts of the parent company at their original cost to the subsidiary company.

The figures shown for purposes of comparison are those of the Fund and its then wholly-owned subsidiary company, Free World Growth Fund Limited, on a consolidated basis.

2. On December 31, 1965, the Fund declared an income distribution of \$260,417 to shareholders of record on that date.

3. During the year 635,201.889 shares of the Fund were issued for cash of \$3,870,270. Also during the year 322,821.011 shares of the Fund were redeemed for \$1,966,242 cash.

4. Commencing January 1, 1965, the Fund applied the portion of the issue or redemption price of its shares related to the income

available for distribution at the dates of such issues or redemptions, to the distribution account. In prior years, such amounts were included with the value of shares issued and outstanding.

5. Distributions per share on an annual basis since the inception of the Fund have been as follows:

In respect of the years ended December 31	(cents)
1961	3.14
1962	7.44
1963	7.46
1964	10.23
1965	11.00

6. The market values of investments quoted in foreign funds have been converted to Canadian funds at the rate of exchange prevailing as at December 31, 1965 and their costs at the rate prevailing on the dates of acquisition.



CANADA GROWTH FUND

STATEMENT OF INCOME

For the Periods from August 15, 1961 to December 31, 1965

	Year ended December 31				Period from August 15, 1961 to December 31, 1961
	1965	1964	1963	1962	
Income from investments —					
Dividends and interest.....	\$350,354	\$133,576	\$78,708	\$44,761	\$8,784
Operating expenses					
inclusive of fees to sponsor and manager..	103,631	36,760	23,142	12,333	1,538
Net income for the period.....	<u>\$246,723</u>	<u>\$ 96,816</u>	<u>\$55,566</u>	<u>\$32,428</u>	<u>\$7,246</u>

STATEMENT OF DISTRIBUTION ACCOUNT

For the Year Ended December 31, 1965

Net income for the year.....				\$246,723
Portion of value of shares issued or redeemed during the year applicable to their participation in the distribution account (Note 4).....				13,694
Distribution to shareholders.....				<u>\$260,417</u>

STATEMENT OF REALIZED AND UNREALIZED NET GAINS ON INVESTMENTS

For the Periods from August 15, 1961 to December 31, 1965

	Year ended December 31				Period from August 15, 1961 to December 31, 1961
	1965	1964	1963	1962	
Balance — beginning of year.....	\$ 802,255	\$252,279	\$(139,621)	\$ 46,391	—
Unrealized —					
Increase (decrease) during the period in excess of market value over cost of investments held.....	538,119	318,002	365,989	(184,808)	51,916
Realized —					
Gains or (losses) during the period on sales of investments.....	(3,001)	231,974	25,911	(1,204)	(5,525)
Balance — end of year.....	<u>\$1,337,373</u>	<u>\$802,255</u>	<u>\$ 252,279</u>	<u>\$(139,621)</u>	<u>\$46,391</u>
Represented at December 31 by —					
Unrealized —					
Excess (deficiency) of market value over cost of investments held.....	\$1,089,218	\$551,099	\$ 233,097	\$(132,892)	\$51,916
Realized —					
Accumulated gains less (losses) on sales of investments.....	248,155	251,156	19,182	(6,729)	(5,525)
	<u>\$1,337,373</u>	<u>\$802,255</u>	<u>\$ 252,279</u>	<u>\$(139,621)</u>	<u>\$46,391</u>



CANADA SECURITY FUND

1965 INVESTMENT RESULTS

At End of	Total Net Assets	Asset Value Per Share	Income Distribution Per Share
1st Quarter	\$276,489	5.04	4.53¢
2nd Quarter	554,785	5.01	4.77¢
3rd Quarter	837,748	4.94	4.95¢
4th Quarter	999,794	4.94	5.42¢

INVESTING FOR STABILITY AND INCOME

A very high proportion of the accumulated capital of both individuals and institutions is invested conservatively in debt type securities of very high quality, such as government bonds. The vast majority of such investment commitments, however, do not receive active management. Purchases are made and held until maturity for whatever yield can be produced.

This method of investing can provide a high degree of safety and reasonable income. However, without any attempt at active portfolio management, a significant degree of total investment performance is lost. At the same time, this is not surprising because dynamic bond portfolio management requires skills and facilities not commonly available.

Canada Security Fund was formed to supply an effective answer to this need. It is recognized that a high proportion of savings accumulation is invested with security and stability the foremost purpose. Hence, this is the primary objective of Canada Security Fund, and it is pursued by emphasizing investment in high quality bonds. The second objective of the conservative investor is reasonable income. This is normally available from a bond portfolio, and in recent years at much higher rates of yield than those available through equities. The important element, however, that is offered by Canada Security Fund and which is missing from most bond portfolios, is the prospect of some growth of both capital and income. This becomes possible only through an active approach to bond management, with frequent portfolio adjustments made in the light of changing conditions. With continuing inflation having become an established fact of life, even the most conservative and safety-oriented investment program badly needs this element of growth.

THE INVESTMENT ADVISER

Fullerton, Mackenzie & Associates Ltd. is under contract as Investment Adviser to Canada Security Fund. The firm provides complete management and advisory service exclusively for bond portfolios. A specialized, professional service of this nature fills an important need in Canada. This is borne out by the fact that Fullerton, Mackenzie & Associates Ltd. is retained by a wide variety of clients, including insurance companies, pension funds, charitable institutions, governments and trust companies. They provide either

advisory services or complete management for portfolios aggregating over \$400 million. Among other important responsibilities of the firm is that of acting as financial and investment advisers to the Canada Council. The firm has a well-rounded team of bond specialists constantly at work in the performance of all of the functions of bond portfolio management. It is the concentrated attention of an experienced group of full time specialists which is thus devoted to the task of pursuing the Fund's objectives.

ACHIEVING FINANCIAL OBJECTIVES

Today it is clear that prominent institutional investors favor a "balanced investment approach." Common stocks affording opportunities for growth of principal and income are combined with bonds and other income investments for stability of principal and income.

Some \$65 billion of private pension fund assets are now invested in this manner, as are billions more of college endowment funds. Generally, common stocks represent a major portion of their investments.

But what about wealthy individuals? A recent study reveals that they also feel the most astute "conservative" way to invest is to follow a balanced approach with the bulk of their assets in common stocks.

Incidentally, North America's more than 90,000 millionaires represent an accumulation of wealth larger than that of even the huge pension funds. It has been established that their assets total over \$250 billion — with their common stock holdings alone worth over \$160 billion. One of their chief investment considerations is to provide a hedge against inflation.

The unusual combination of two complementary funds, Canada Growth Fund and Canada Security Fund, allows the average individual to invest "the way the millionaires do." With Canada Growth Fund concentrating on growth-type common stocks and Canada Security Fund offering a fully-managed bond portfolio, it is possible for the investor to pursue his own exact investment objective through a combination of the two funds. Such a combination can be in whatever proportion best suits the circumstances of the individual — and it can be altered at any time without the payment of any additional sales charge.



CANADA SECURITY FUND

ASSETS

Investment in bonds - at quoted market value (average cost December 31, 1965 - \$994,456 principal amount \$1,005,000).....	\$ 985,863
Short-term notes.....	135,000
Cash.....	51,669
Accounts receivable from sale of investments.....	125,642
Accrued interest receivable.....	8,165

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the following financial statements of Canada Security Fund —

Balance sheet and portfolio of investments as at December 31, 1965;

Statements of income, distribution account and realized and unrealized losses on investments for the year ended December 31, 1965.

Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

\$1,306,339

In our opinion, the above-mentioned financial statements, when read in conjunction with the notes thereto, present fairly the financial position of the Fund as at December 31, 1965 and the results of its operations for the year ended on that date and the portfolio of investments presents fairly the information it purports to present, the whole in accordance with generally accepted accounting principles.

McDONALD, CURRIE & CO.
Chartered Accountants

Montreal 2, Canada
January 14, 1966

APPROVED ON BEHALF OF THE MANAGER

J. B. SPARLING, Director

R. R. TILDEN, Director

BALANCE SHEET AS AT DECEMBER 31, 1965

LIABILITIES

Accounts payable for purchase of investments.....	\$ 293,951
Accrued expenses.....	1,640
Income distribution payable January 24, 1966 (note 2).....	10,954
	<u>\$ 306,545</u>

SHAREHOLDERS' INTEREST

Shares of no par value issued and outstanding (note 3)		
Issued since inception 234, 739.581 shares.....	\$1,172,434	
Redeemed 32,549.001 shares.....	<u>162,465</u>	
Balance outstanding 202,190.580 shares.....	\$1,009,969	
Realized and unrealized losses on investments.....	<u>10,175</u>	999,794
		<u>\$1,306,339</u>
Net asset value per share	\$ 4.94	<u>4.94</u>

NOTES TO FINANCIAL STATEMENTS

For the Year ended December 31, 1965

1. The Fund was established on December 31, 1964 and commenced operations on that date.
2. On December 31, 1965 the Fund declared an income distribution of \$10,954 to shareholders of record on that date.
3. During the year 189,719.581 shares of the Fund were issued for cash of \$947,334. Also during the year 32,549.001 shares of the Fund were redeemed for \$162,465 cash.



CANADA SECURITY FUND

STATEMENT OF INCOME

For the Year ended December 31, 1965

Interest from investments	\$29,127
Operating expenses inclusive of all fees	<u>5,075</u>
Net income for the year	<u><u>\$24,052</u></u>

STATEMENT OF DISTRIBUTION ACCOUNT

For the Year ended December 31, 1965

Net income for the year	\$24,052
Portion of value of shares issued or redeemed during the year applicable to their participation in the distribution account	<u>3,063</u>
Distribution to shareholders	<u><u>\$27,115</u></u>

Income distribution to shareholders

	Per share (cents)	
1st quarter	4.53	\$ 2,487
2nd quarter	4.77	5,279
3rd quarter	4.95	8,395
4th quarter	<u>5.42</u>	10,954
Total	<u>19.67</u>	<u><u>\$27,115</u></u>

STATEMENT OF REALIZED AND UNREALIZED LOSSES ON INVESTMENTS

For the Year ended December 31, 1965

Unrealized —

Decrease during the year in market value of investments	\$ 8,593
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Realized —

Losses during the year on sales of investments	<u>1,582</u>
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Balance — end of year	<u><u>\$10,175</u></u>
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CANADA SECURITY FUND

PORTFOLIO OF INVESTMENTS

As at December 31, 1965

Security	Rate %	Maturity	Principal Amount	Quoted market value
Government of Canada.....	5	Oct. 1, 1973	\$ 250,000	\$243,125
Alberta Municipal Finance Corp.....	5 1/4	June 15, 1987	50,000	47,375
Province of Manitoba.....	5 3/4	Jan. 1, 1996	75,000	74,625
New Brunswick Electric Power Commission.....	6	Jan. 1, 1996	150,000	151,313
Province of Nova Scotia.....	5 1/4	May 1, 1985	50,000	47,000
Province of Ontario.....	5 1/4	April 15, 1985	50,000	47,500
Ontario Hydro Electric Power Commission.....	5 3/4	Jan. 4, 1988	70,000	70,350
Municipality of Metropolitan Toronto.....	5 1/2	June 15, 1985	50,000	48,000
Blue Bonnets Raceway Inc. Conv. Debs.....	6 1/2	Nov. 15, 1982	35,000	35,700
Blue Bonnets Raceway Inc., 1st Mtge.....	6 3/4	Nov. 15, 1982	50,000	49,250
Central Covenants (Holding) Limited.....	6 1/4	Sept. 1, 1990	25,000	24,250
Quebec Natural Gas.....	5 3/4	April 1, 1985	50,000	46,500
Traders' Finance Corp. (ex wts).....	6 1/2	Nov. 15, 1970	50,000	47,250
Westcoast Transmission Company Limited Series "E".....	5 3/4	Nov. 1, 1984	<u>50,000</u>	<u>53,625</u>
			<u>\$1,005,000</u>	<u>\$985,863</u>
NET CASH, RECEIVABLES AND SHORT-TERM NOTES.....				<u>13,931</u>
TOTAL NET ASSETS.....				<u>\$999,794</u>

SERVICES FOR SHAREHOLDERS

THE CAPITAL GROWTH PLAN

It is possible to acquire a holding in Canada Growth Fund or Canada Security Fund by means of a systematic plan for accumulating shares, sponsored by Planned Investments Corporation, and known as the Capital Growth Plan. Plans are available for single deposit purchases or for monthly deposit purchases, in various denominations. The monthly deposit plans, in denominations of \$20 per month and up, call for 120 instalments, designed to cover a ten year deposit period. Shares are held in safekeeping by the plan custodian, Crown Trust Company. Individual planholder accounts are maintained, deposits are processed, statements of account are mailed out and other services performed which are outlined in detail in a plan certificate which is the official plan contract between planholder, plan sponsor and custodian.

In addition to all the other planholder services, the planholder has the privilege of withdrawing up to 90% of the value of his plan at any time after making 20 monthly deposits or the equivalent with the retention of the right of re-entry whenever he wishes without any new sales charge. This, in effect, gives the planholder an indefinite option to liquidate and reinvest without cost in accordance with the needs of his personal situation. Capital Growth Plans qualify for a reduced sales charge when the anticipated total of the ten year agreed deposits falls into one of the discount levels. Special Executive Plans are available on a discounted basis with agreed deposits of \$25,000, \$50,000 and \$100,000. Such plans can result in significant savings in sales charges as compared with ordinary share purchase methods.

PLAN INSURANCE

The Capital Growth Plan, in its monthly deposit form, is offered with optional group life and disability insurance. The insurance is made available as an option to applicants from age 21 to 55 on the basis only of a statement of health. The current cost of the insurance is 62 cents per month per thousand of the remaining balance of deposits under the terms of the plan. The cost of insurance is deducted from the monthly deposits made by the planholder. The maximum amount of insurance available to one planholder is \$36,000 or coverage on plans up to \$300 per month.

CUMULATIVE INVESTMENT PROGRAM

This is an informal, voluntary program under which, subject to the minimum deposits, the investor may invest as much as he chooses as often as he wishes. It is flexible and may be readily adjusted to the investor's financial circumstances and needs. The program provides for a minimum initial investment of \$500 and subsequent cash investments of \$100 or more. Statements of account are issued to program holders on receipt of each deposit.

QUANTITY DISCOUNTS

Any number of shares of the Funds may be acquired at any given time at the same price per share. The maximum sales charge for the smallest purchases is 9% of the offering price. Discounts from the regular offering price are applicable to purchases of \$12,000 or more, on a graded basis. The sales charge on the largest purchases is reduced as low as 1%.

LETTER OF INTENT

Investors intending to purchase shares in an amount of \$12,000 or more within a period of 13 months, but who may not find it convenient to make the full deposit at one time, may make use of a Letter of Intent. By this means, each part of the total investment made during the 13 month period of the agreement can qualify for the discount from the regular offering price which would apply if the total investment were made at one time.

CUMULATIVE DISCOUNT

Where previous individual purchases of shares did not aggregate and qualify for discount, but a subsequent individual purchase of shares, when combined with such previous purchases still held, aggregates and qualifies for discount, then the appropriate discount applies on the last of such purchases and subsequent purchases qualify in a similar manner. For the purpose of such discounts, purchases of both Canada Growth Fund and Canada Security Fund may be considered as one amount.

AUTOMATIC REINVESTMENT OF INCOME DISTRIBUTIONS

Income distributions declared by both Canada Growth Fund and Canada Security Fund are automatically reinvested at net asset value in additional shares of the Funds, except in the case of shareholders who elect to receive their distributions in cash. This provides shareholders with an efficient means of securing maximum compound growth of their investment, frequently difficult or impossible to achieve in other investment media.

MARKETABILITY

The Funds provide a market at all times for their shares. Each Fund stands ready to redeem its shares at their full current net asset value on any business day, without redemption charge. Such net asset value is calculated on every day on which the Montreal Stock Exchange is open. This important feature, unique to mutual funds, provides for the investor the valuable feature of liquidity so important to efficient investment administration by individuals or institutions which otherwise might have to maintain large cash or relatively unproductive cash-equivalent balances.

TAX ADVANTAGES FOR THE INVESTOR

As unincorporated investment trusts, Canada Growth Fund and Canada Security Fund pay no income tax. A significant part of the total investment performance of Canada Growth Fund, and to a lesser extent Canada Security Fund, is in the form of tax free capital gains. Shareholders of the Funds must individually declare their share of the net income of the Funds from year to year. Canadian resident shareholders may claim the 20% dividend tax credit in respect of that part of Canada Growth Fund distributions which is in the form of dividends from taxable Canadian corporations. Income from non-Canadian securities is usually subject to withholding tax in the country of origin. To the extent permitted by the applicable Canadian tax laws, the amount of any such tax withheld may be deducted from Canadian income tax payable by the shareholder. Shareholders of the Funds receive an income tax Form T-3 each year from the Funds,

which identifies the nature and amount of the taxable income from the Funds in the previous year, to facilitate the preparation of individual income tax returns.

SYSTEMATIC WITHDRAWAL PLANS

The ultimate purpose of most investing is to build or create capital which can serve its owner by providing income convenient to use. Frequently shareholders will wish to secure the advantage of the performance objective of Canada Growth Fund or Canada Security Fund, and yet, at the same time, either immediately or at that time which suits their needs, secure regular monthly or quarterly income from one of the Funds without being limited to the actual income distributions available from the Funds. This is made possible for the shareholder whose shares have a minimum value of \$5,000 by means of the modern device known as the Systematic Withdrawal Plan. Accordingly, such shareholders can arrange to receive from the Funds monthly or quarterly cheques on the basis of three options:

- (1) Ratio income by selected percentage of average assets;
- (2) Fixed dollar income;
- (3) Fixed period income designed to produce maximum adjusted withdrawals to exhaust a holding in a selected period from one to twenty years.

These systematic income arrangements are designed to enable a shareholder to meet personal income requirements by making current use of some of the average total fund performance. Naturally, the lower the income which is drawn relative to the total value of shares held, the greater the prospect of long-term growth in value of the account. The systematic withdrawal plan is an efficient income device and can be of great benefit provided it is properly understood by the shareholder. It is important to appreciate, however, that under conditions where systematic withdrawals may be in excess of average income distributions and net capital appreciation combined, they may result in encroachment on original capital.

TAX APPROVED RETIREMENT SAVINGS PLANS

Arrangements have been made through the Trustee of the Funds for their shares to be employed as an approved means by which a shareholder can take advantage of the privilege extended to a Canadian resident of making contributions to a Retirement Savings Plan as authorized by Section 79B of the Income Tax Act. Amounts deposited to such a Plan up to the end of February in any year qualify for deduction from the planholders' previous year's taxable income, provided such amounts are not in excess of the allowable limits under the terms of Section 79B of the Income Tax Act.

SHARE EXCHANGE PRIVILEGE

Shareholders of either Canada Growth Fund or Canada Security Fund have the privilege of exchanging their shares for shares of equal value in the other of the two Funds, without sales charge. Further reference to the value of this privilege appears on page 11.

PAYROLL INVESTMENT PLANS FOR INDUSTRY

Arrangements are available by which shares of the Funds may be accumulated through a simple pay assignment procedure as a service to employees. Such plans can make an ideal complement to other employee benefits, and can make the search for security increasingly painless, automatic and efficient. A consolidated billing system is provided by the general distributor of the Funds. Special flexible arrangements and group or individual counseling services are provided.

INCENTIVE COMPENSATION PLANS

A plan is available through the general distributor by which the shares of the Funds may be used as the investment media to support an incentive compensation plan in industry. This is an arrangement by which an employer may accumulate deferred benefits for selected key employees which provide both employer and employee with tax advantages, and which through the attractive cumulative investment results which can be generated, can represent an effective influence toward the retention of such personnel by the employer.

DEFERRED PROFIT SHARING PLANS

The general distributor makes available a plan which is approvable for tax purposes under Section 79C of the Income Tax Act by which an employer can accumulate shares of the Funds in a Deferred Profit Sharing Plan. This is an effective means of bringing the dynamic investment benefits of professional management into such programs for the larger potential benefit of the participants.

CORPORATE PENSION FUND INVESTMENT PLANS

Shares of both Canada Growth Fund and Canada Security Fund are being accumulated regularly by a number of registered corporate pension funds. The combination of the two Funds makes it possible for a pension fund to be invested in accordance with any particular investment policy the pension fund trustees may wish to follow. Letters of Intent and cumulative discount arrangements can make the use of the Funds an economical investment method for the purpose, while, at the same time, offering the prospect of effective investment results with a consequent beneficial effect on the level of pensions relative to cost.

CONVENIENCE

The Funds free shareholders from investment care in that safekeeping of securities, bookkeeping, attending to proxies and rights, and accounting for income from many sources are all provided for by the Funds. The Funds perform all of the detail work which the investor would otherwise have to do himself if he owned a considerable number of individual stocks or bonds.

In addition, through the various special facilities for systematic deposit, systematic withdrawal, automatic reinvestment of income and regular statements of account, the shareholder enjoys a number of privileges and options which can be employed to serve his own individual purposes with continuity and effectiveness otherwise difficult to achieve.

